

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



**FINANCIAL EXAMINATION
OF
Great Republic Life Insurance Company
Seattle, Washington**

**NAIC CODE 67482
DECEMBER 31, 2001**

**Participating States:
Washington**

**Great Republic Life Insurance Company
Order No. G 05-01
Exhibit A**

Seattle, Washington
February 14, 2005

The Honorable Kevin McCarty
Chair, NAIC Financial Condition (E) Committee
Director of Insurance Regulation
Florida Dept. of Financial Services
The Larson Bldg., 200 E. Gaines St., Room 101
Tallahassee, FL 32399-0301

The Honorable John Morrison
Commissioner, Montana Department of Insurance
NAIC Secretary, Western Zone
840 Helena Avenue
Helena, MT 59601

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance 5000 Building
5000 Capital Blvd.
Tumwater, WA 98504-0255

Dear Commissioners:

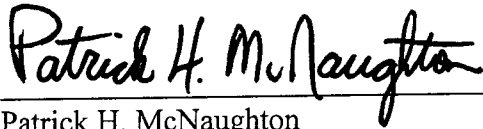
In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

Great Republic Life Insurance Company
of
Seattle, Washington

hereinafter referred to as the "Company" or "Great Republic Life" or "GRL" at the location of its home office, 1900 W. Nickerson Street, Washington 98119. This report is respectfully submitted showing the financial condition of the Company as of December 31, 2001.

CHIEF EXAMINER AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Great Republic Life Insurance Company of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2001.



Patrick H. McNaughton
Chief Examiner

2-14-05

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 1996 through December 31, 2000, carried forward through December 31, 2001, and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administration Code (WAC), Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records along with external reference materials from the NAIC and the Internal Revenue Service (IRS) along with various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2001 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Accounting Practices and Procedures Manual. The following summarizes the exceptions noted while performing this examination.

1. General Interrogatory Questions not Completed

The General Interrogatory Questions were not completed as required by the 2001 NAIC Annual Statement Instructions. The following items were not included: Interrogatory question 9 requires the name and address of the outside auditing firm be disclosed, Interrogatory question 10 requires the name and address of the appointed actuary/consultant be disclosed, and Interrogatory question 29 requires disclosing the name of the person that supervised the making of the annual statement.

The Company is instructed to complete the General Interrogatories as required by RCW 48.05.073 and the NAIC Annual Statement Instructions.

2. Provisional Exemption Record Keeping Requirements

The Company was not aware of the record keeping and monitoring requirements of provisionally exempted securities. The Company has been relying on the Securities

Valuation Office publication alone to prove exemption status. The Company has the majority of its investments rated with an NAIC designation of 1 or 2 and the administrative symbol "PE" which is for declared provisionally exempt securities. For each security the Company declares as provisional exempt, the Company must maintain a record supporting its decision to declare the security as provisionally exempt and include in its documentation evidence of continued monitoring.

The Company is instructed to comply with the record keeping requirements and monitoring requirements of provisionally exempted investments. This will ensure full and adequate accounts and records of its assets in compliance with RCW 48.05.280 and WAC 284-07-050(2) to ensure the accuracy of future statutory filings and to comply with NAIC Annual Statement Instructions.

3. Misclassification of Amounts due from Agents

In the process of examining Amounts Due from Agents, the examination disclosed that the Company was recording loans to agents as a nonadmitted asset in the balance sheet account, Other Assets. Loans to agents should be recorded as a nonadmitted asset in the balance sheet account, Amount Due from Agents. The total amount of misclassification for the year ending December 31, 2001 was \$28,515.

The Company is instructed to classify loans to agents in the correct balance sheet account as required by RCW 48.05.250 and the NAIC Annual Statement Instructions. This misclassification had no effect on capital and surplus and, due to immateriality no reclassifications were required for the examination.

4. Misclassification of Commission Due and Accrued

The Company separates "Commissions Due and Accrued" into two groups: (1) commission due on premiums collected; and, (2) commission due on premiums not collected. Both amounts should be recorded in the NAIC Annual Statements as "Commissions to agents due or accrued". The Company has been reporting commission due on premiums not collected as "Amounts held for agent's account...". The NAIC Annual Statement Instructions for "Amounts held for agent's account..." specifically states that commissions should not be reported in this line item but should be reported in the line item "Commissions Due and Accrued".

The Company is instructed to record commissions due and accrued as required by NAIC Annual Statement Instructions in the correct line item. This will ensure full and adequate accounts and records of its assets, obligations, transactions, and affairs in compliance with RCW 48.05.280 and ensure the accuracy of future statutory filings. This misclassification had no effect on capital and surplus and, due to immateriality, no reclassifications were required for our examination.

5. Understatement of Reinsurance Receivable

The account Amounts Recoverable from Reinsurers is understated in the General Ledger and in the Company's Annual Statement by \$7,863 as of December 31, 2001. In discussions with the Accounting Manager for the Company, the reason for the understatement is that the Monthly Reinsurance Settlement Reports are not reconciled to the General Ledger Control Accounts and the accounting system nets the reinsurance assets and liabilities in the General Ledger. The Company has made entries to correct the difference and is now recording reinsurance assets and liabilities separately.

The Company is instructed to correct the reporting deficiencies noted above. This will ensure full and adequate accounts and records of its obligations and affairs in compliance with RCW 48.05.280 and WAC 284-07-050(2) to ensure the accuracy of future statutory filings and to comply with NAIC Annual Statement Instructions. In order to properly reflect the Amounts Recoverable from Reinsurers, the following adjustment was made to the examination report:

	<u>Dr.</u>	<u>Cr.</u>
Amounts Recoverable from Reinsurers	\$7,863	
Disability Benefits and Benefits under A&H		\$7,863

6. Interest on Death Claim Benefits Payable

In reviewing death claim payments for year 2001, our examination found that the Company has not been paying interest on death claim benefit payable for Washington State residents. The Company was not aware of the requirements of RCW 48.23.300 which requires interest on death benefits payable under the terms of a life insurance policy for any person who is a resident of the state of Washington upon death. Interest is to commence on the date of death at a minimum rate of eight percent. Benefits payable that have not been tendered to the beneficiary within ninety days of the receipt of proof of death are to accrue interest commencing on the ninety-first day at the rate of eleven percent.

The Company is instructed to include interest on death benefits payable as required under RCW 48.23.300 as part of the final settlement payment to beneficiaries.

7. Loss Reserves

The OIC's actuarial staff reviewed the Statement of Actuarial Opinion and the supporting Actuarial Memorandum regarding the Company's asset adequacy analysis. These documents were submitted with the Company's 2001 Annual Statement as provided for in Section 3 of the Standard Valuation Law, and in Section 8 of the NAIC Model Actuarial Opinion and Memorandum Regulation. The OIC actuarial staff has recommended an increase of \$472,000 to the account Aggregate Reserve for Accident and Health Policies based on long term care policies. The increase is based on business

risk factors that included a low diversification of product offerings, lack of experience to assess the amount of risk, lack of meaningful growth, and the cash flow of investments.

The Company is instructed to increase the reserves in the account Aggregate Reserve for Accident and Health Policies by the amount determined by the OIC Actuarial staff of \$472,000 as required under RCW 48.12.030. In order to properly reflect reserves for the account Aggregate Reserve for Accident and Health Policies, the following adjustment was made in the examination report:

	<u>Dr.</u>	<u>Cr.</u>
Aggregate Reserve for Accident and Health Policies	\$472,000	
Disability Benefits and Benefits under A&H		\$472,000

COMMENTS AND RECOMMENDATIONS

1. Check Signatory Approval

Checks over \$2,500 require two signatures. This attribute failed twice in our sample of the claims' check register and once in our sample of the general check register. Failures in the general account and claims account totaled 3 failures out of 26 checks that were over \$2,500.

We recommend that the Company follow its established policy for cash disbursements or review policies and guidelines for amendment.

2. New Policies without Underwriting Approval

It is the policy of the Company to have all new policy applications reviewed and approved by the underwriter. The underwriter indicates approval by signing or initialing a manual form used to process all new policy applications. In our sample of 37 new applications, we found nine failures by the underwriter to formally approve by signature the applications for underwriting purposes.

Underwriting review and approval is a very import control function for the success of the Company. We recommend that the Company follow its established underwriting procedures for approval of policy applications or review policies and guidelines for amendment.

HISTORY

The Company was incorporated on July 14, 1965 as a stock life insurance company under the laws of the state of Washington and commenced business on May 4, 1966 using the name of Pacific Reserve Life Insurance Company. On January 1, 1968, the Company's name was changed to Great Republic Life Insurance Company. On March 17, 1978,

Empire Insurance Agency, Inc., a Seattle, Washington corporation, acquired control of the Company and, as of December 31, 2001, owned 100% of the outstanding stock of Great Republic Life Insurance Company. The Company is a stock life insurance company authorized to transact life insurance in 7 states. The Certificate of Authority in the state of Arizona was suspended effective October 21, 1996. The Company primarily writes long term care for nursing home and home health care and a small amount of student life.

MANAGEMENT AND CONTROL

Directors

Patricia D. Pritchett
James Water Pritchett, MD
Jeannie Lingg Mathews
Kyle Ewing
Constance Lee Taylor

Officers

Patricia D. Pritchett	President
Kyle Ewing	Secretary
Phillip H. Pritchett	Treasurer

AFFILIATED COMPANIES

The Company is a member of a holding company system regulated pursuant to RCW Chapter 48.31B. On March 17, 1978, Empire Insurance Agency, Inc. a Seattle, Washington corporation, acquired control of the Company and on December 31, 2001 owned 100% of the outstanding stock of Great Republic Life Insurance Company and serves as the parent company in the holding company structure. Empire Insurance Agency, Inc. is 100% owned and operated by Patricia D. Pritchett, President for Great Republic Life Insurance Company.

CAPITAL AND SURPLUS

RCW 48.05.340 requires the Company to maintain minimum levels of unimpaired capital and surplus in order to transact business. The Company is grandfathered under previous capital and surplus requirements prior to June 9, 1994, and is required to maintain only an aggregate amount of paid-in capital stock or basic surplus of \$150,000 and additional surplus of \$100,000. The Company has maintained an excess of these amounts over the period under examination.

The Company's Board of Directors has authorized one million shares of ten dollar par common stock. As of December 31, 2001, one hundred thousand shares of common stock were issued and outstanding. Empire Insurance Agency, Inc., which serves as a holding company, owns all outstanding stock of Great Republic Life Insurance Company.

CONFLICT OF INTEREST

The Company has a policy statement regarding conflicts of interest. All directors, officers, and key employees are required to complete conflict of interest statements. No conflicts were noted for the six years under examination.

CORPORATE RECORDS

Review of the minutes of the Board of Directors of the Company for the period under examination did not indicate any material changes to the corporate Bylaws or the Articles of Incorporation. The minutes of the meetings of stockholders, directors and committees adequately approve and support Company transactions and events. All corporate records are maintained in Seattle, Washington at Great Republic Life's home office.

FIDELITY BONDS AND OTHER INSURANCE

Fidelity bonds and other insurance were reviewed to ensure the Company has adequately identified and maintained coverage for property and liability claims that may arise out of the ordinary course of business. Our examination determined the Company has adequately insured itself against unforeseen property and liability exposures and fidelity bond coverage for directors, officers, and key employees. Additionally, the Company's fidelity bonds and other insurance meet or exceed all statutory and/or NAIC minimum guidelines to protect Company assets and policyholders.

WELFARE AND PENSION PLANS

During the period under the prior examination, the Company dissolved the 401K plan and adopted a new Salary Reduction Simplified Employee Pension Plan (SARSEP Plan). Under this plan, eligible employees are allowed to voluntarily defer a portion, not to exceed 15%, of their compensation. The deferrals are then invested through Dain Bosworth Inc., an IRA Custodian. There are no employer contributions. Other benefits include life and accidental death insurance and medical insurance at no cost to the employee.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to conduct business in the states of Alaska, Idaho, Nevada, Oregon, Utah, and Washington with three-quarters of premium income generated in Washington State. At present, the Company is increasing its business in the states of Washington, Idaho, Oregon, Utah, and Nevada. The Company's Certificate of Authority in the state of Arizona was suspended effective October 21, 1996 due to capital deficiency and continued operating losses. The Company is in the process of filing to have its Certificate of Authority reinstated in the state of Arizona.

GROWTH OF THE COMPANY

The growth of the Company is reflected in the following schedules compiled from the Company's Annual Statements as of December 31:

<u>Schedule 1</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Total admitted assets	\$18,352,935	\$17,558,071	\$16,748,234	\$14,302,622	\$13,924,623
Total liabilities	14,796,232	14,566,578	14,249,571	12,160,831	11,709,068
Aggregate life reserves	2,019,088	1,874,596	1,836,146	1,685,359	1,598,654
Aggregate A&H reserves	12,155,727	12,147,887	11,804,325	9,911,073	9,411,517
Capital stock	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Gross paid in contributed surplus	1,816,290	1,816,290	1,816,290	1,816,290	1,816,290
Unassigned funds	740,413	175,203	(317,627)	(674,499)	(600,735)
Total surplus	2,556,703	1,991,493	1,498,663	1,141,791	1,215,555
Total surplus and stocks	\$ 3,556,703	\$ 2,991,493	\$ 2,498,663	\$ 2,141,791	\$ 2,215,555
Risk based capital (RBC)	284%	314%	269%	228%	872%

<u>Schedule 2</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Premium income	\$2,626,443	\$2,904,548	\$3,001,485	\$3,357,153	\$3,769,692
Net investment income	1,038,032	1,093,896	962,033	835,993	717,082
Misc. Income Items	<u>305,592</u>	<u>354,731</u>	<u>1,907,874</u>	<u>(254,674)</u>	<u>381,360</u>
Total Income	3,970,067	4,353,175	5,871,392	3,938,472	4,868,134
Total benefits and reserve changes	2,047,915	2,245,368	3,838,236	2,245,155	2,728,572
Total operating and other expenses	<u>1,341,835</u>	<u>1,581,163</u>	<u>1,652,001</u>	<u>1,742,031</u>	<u>1,655,522</u>
Total expenses	3,389,750	3,826,531	5,490,237	3,987,186	4,384,094
Net gain (loss) from operations	580,317	526,644	381,155	(48,714)	484,040
Adjustments to Net gain (loss)	<u>(60,178)</u>	<u>476</u>	<u>(23,869)</u>	<u>(4,546)</u>	<u>(50,244)</u>
Net income (loss)	\$ 520,139	\$ 527,120	\$ 357,286	\$ (53,260)	\$ 433,796

BUSINESS IN FORCE BY STATES

The following schedule reflects premiums collected by the Company for the year ended December 31, 2001:

Alaska	\$ 2,118
Arizona	256,849
Idaho	13,976
Nevada	88,244
Oregon	344,144
Utah	37,162
Washington	<u>3,347,167</u>
Total:	<u>\$4,089,660</u>

LOSS EXPERIENCE

The aggregate reserves carried by the Company for life policies and long term care policies were \$2,019,088 and \$12,155,727, respectively, as of December 31, 2001.

The aggregate reserves for life policies and long term care policies were reviewed and attested to by Gerald J. Rankin, FSA, MAAA, Senior Consulting Actuary, Rankin & Associates, Ltd. Mr. Rankin was retained by the Company to perform independent actuarial analysis over the last two years under examination in order to issue an actuarial opinion in compliance with RCW 48.74.025 and WAC 284-07-360.

The OIC actuarial staff reviewed the Statement of Actuarial Opinion and the supporting Actuarial Memorandum regarding the Company's asset adequacy analysis. These documents were submitted with the Company's 2001 Annual Statement as provided for in Section 3 of the Standard Valuation Law, and in Section 8 of the NAIC Model Actuarial Opinion and Memorandum Regulation. The OIC actuarial staff has recommend an adjustment of \$472,000 to long term care reserves based on business risk factors that included a low diversification of product offerings, lack of experience to assess the amount of risk, lack of meaningful growth, and the cash flow of investments. (See Instruction No. 7)

REINSURANCE

Reinsurance agreements were reviewed for compliance with Washington State reinsurance statutes. In addition, all reinsurers were verified as authorized or unauthorized and noted if properly classified in Schedule S. Reserve credits were reviewed and verified during the actuarial phase of our examination. Based on our review, the Company appears to be adequately monitoring its reinsurance program, including the financial condition of reinsurers and the overall reinsurance program appears to be adequate for the Company's

exposure and ability to assume risk. The Company currently has two active ceded reinsurance treaties as follows:

London Life Reinsurance Company

In 1996, GRL entered into a reinsurance agreement with London Life Reinsurance Company. This is a facultative, proportional, coinsurance contract in which Great Republic Life cedes 50% of its premium and losses for long term care policies. GRL receives a ceding commission of 5% of gross premium to cover administrative expenses and 2% of gross premium to cover premium taxes. There is an additional amount received to cover commissions. Additionally, Great Republic Life receives an allowance of up to 17.5% of premiums to cover commissions for commission rates in effect at the time of the agreement.

American Long Term Care

In 1998, Great Republic Life entered into a reinsurance agreement with American Long Term Care. This is a facultative, proportional, coinsurance contract in which Great Republic Life cedes 50% of the premium and losses related to long term group skilled nursing policies. GRL receives a ceding commission equal to actual state premium taxes (usually 2% of gross premiums for Washington) and 7% of gross premiums to cover administrative expenses.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained on a Generally Accepted Accounting Principles (GAAP) basis of accounting and are converted to Statutory Accounting Practices (SAP) modified accrual basis for reporting purposes. The Company is audited annually by the Certified Public Accountants, Ernst & Young, LLP. Ernst & Young, LLP, issued an unqualified opinion for 2000 and 2001.

ELECTRONIC DATA PROCESSING SYSTEMS AND OPERATIONS

The management of Great Republic Life is sufficiently knowledgeable of EDP issues. The Company does not have an Internal Audit Department or an Information Systems Specialist; however, the Company is not a nationally-significant company and there is no expectation for an Internal Audit Department or an Information Systems Specialist. Instead, Great Republic Life uses external auditors and consultants to provide system reviews.

Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate controls are in place for a company the size of Great Republic Life. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed; and, the controls exercised to maintain data security.

Adequate procedures and controls are in place for mainframe and network operations. The Company has contracted with an outside network consulting firm for support with the operations of its client/server.

Proper internal controls for the separation of duties have been implemented. The Company has a contract with the Welland Group to assist with the implementation of available technologies and technically competent personnel to support client/server business transactions. The Company has proper controls to protect "live" data files from unauthorized changes. System controls are in place for the client/server operations to protect the live production files.

SUBSEQUENT EVENTS

1. Claims Expense

The Company has experienced losses in the year 2002 from two contingent liability law suits. The Company established a liability for the possible losses in the year 2001 of \$55,000 but the actual legal settlement was for \$300,387 in 2002. The difference of \$245,387 was charged to claim expense.

2. Bond defaults

There were three bond defaults in year 2002, World Com, MCI and Consecro for a total write off of \$270,484. The net write off was \$197,484 (\$270,484 less AVR of \$73,000). AVR is currently at zero.

3. Additional Reserve Requirements

The Company's December 31, 2003 Statement of Actuarial Opinion and Actuarial Memorandum from Mercer Oliver Wyman, Appointed Actuary, include significant adjustments to the Company's reserves in the amount of approximately \$1.2 million. An important assumption to this adjustment is a 25% rate increase in the year 2005. Without this rate increase, further adjustments to reserves of approximately \$1.3 million will be necessary. The OIC is currently monitoring reserve development and without adequate pricing and reserve strengthening, the Company's financial position as a "Going Concern" may be at risk.

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GREAT REPUBLIC LIFE INSURANCE COMPANY
Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2001

Assets	Balance	Ref	Adjustments	Balance
	<u>Per Company</u>			<u>Per Exam</u>
Bonds	\$ 13,710,173			\$ 13,710,173
Preferred stocks	851,000			851,000
Policy loans	18,697			18,697
Cash and short term investments	3,239,593			3,239,593
Other invested assets				
Aggregate write-ins for invested assets	250			250
Amounts recoverable from reinsures	94,814	A1	\$ 7,863	102,677
Commissions and expense allowance due	22,749			22,749
Electronic data processing equipment	51,187			51,187
Federal income tax recoverable and interest thereon	20,087			20,087
Guarantee funds receivable or on deposit	52,493			52,493
Life insurance premiums and annuity considerations deferred and uncollected	31,031			31,031
Accident and health premiums due and unpaid	16,666			16,666
Investment income due and accrued	<u>244,195</u>			<u>244,195</u>
Total assets	<u>\$ 18,352,935</u>		<u>\$ 7,863</u>	<u>\$ 18,360,798</u>
Liabilities, surplus and other funds				
Aggregate reserve for life policies and contracts	\$ 2,019,088			\$ 2,019,088
Aggregate reserve for accident and health policies	12,155,727	A2	\$ 472,000	12,627,727
Policy and contract claims: life	18,500			18,500
Policy and contract claims: accident and health	151,226			151,226
Premiums and annuity considerations received in advance	2,749			2,749
Interest maintenance reserve	15,651			15,651
Commission to agents due or accrued for accident and health policies	1,845			1,845
General expenses due or accrued	167,400			167,400
Taxes, licenses and fees due or accrued, excluding FIT	8,716			8,716
Federal income taxes	10,000			10,000
Amounts withheld or retained by company as agent or trustee	191			191
Amounts held for agents' account	30,481			30,481
Remittances and items not allocated	3,236			3,236
Asset valuation reserve	73,000			73,000
Funds held under coinsurance	98,462			98,462
Aggregate write-ins for liabilities	<u>39,960</u>			<u>39,960</u>
Total liabilities	<u>14,796,232</u>		<u>472,000</u>	<u>15,268,232</u>
Common capital stock	1,000,000			1,000,000
Gross paid in and contributed surplus	1,816,290			1,816,290
Unassigned funds	<u>740,413</u>		<u>(464,137)</u>	<u>276,276</u>
Total surplus and other funds	<u>3,556,703</u>		<u>(464,137)</u>	<u>3,092,566</u>
Total liabilities, surplus and other funds	<u>\$ 18,352,935</u>		<u>\$ 7,863</u>	<u>\$ 18,360,798</u>

GREAT REPUBLIC LIFE INSURANCE COMPANY
Summary of Operations
For the Year Ended 2001

	<u>Balance</u> <u>Per Company</u>	<u>Ref</u>	<u>Adjustments</u>	<u>Balance</u> <u>Per Exam</u>
Premiums for life and accident and health policies and contracts	\$ 2,626,443			\$ 2,626,443
Net investment income	1,038,032			1,038,032
Amortization of interest maintenance reserve	7,080			7,080
Commissions and expense allowances on reinsurance ceded	298,492			298,492
Aggregate write-ins for deductions	<u>20</u>			<u>20</u>
Totals	<u>3,970,067</u>			<u>3,970,067</u>
Death benefits	66,000			66,000
Disability benefits and benefits under accident and health policies	1,794,713	A1 to A2	\$ 464,137	2,258,850
Surrender benefits and other fund withdrawals	34,872			34,872
Increase in aggregate reserves for life and accident and health policies	152,330			152,330
Commissions on premiums	417,453			417,453
General insurance expenses	802,247			802,247
Insurance taxes, licenses and fees, excluding federal income tax	121,310			121,310
Increase in loading on deferred and uncollected premiums	715			715
Aggregate write-ins for deductions	<u>110</u>			<u>110</u>
Totals	<u>3,389,750</u>		<u>464,137</u>	<u>3,853,887</u>
Net gain from operations before dividends to policyholders and FIT	580,317		(464,137)	116,180
Federal income taxes incurred	(10,000)			(10,000)
Net realized capital gains or losses less capital gains tax & IMR transfers (Note 14)	<u>(50,178)</u>			<u>(50,178)</u>
Net Income	<u>\$ 520,139</u>	A1 to A2	<u>\$ (464,137)</u>	<u>\$56,002</u>
CAPITAL AND SURPLUS ACCOUNT				
Capital and surplus, December 31, 1998	<u>\$ 2,991,492</u>			<u>\$ 2,991,492</u>
Net income	520,139		(464,137)	56,002
Change in net deferred income tax	(315,146)			(315,146)
Change in non-admitted assets and related items	(517,470)			(517,470)
Change in asset valuation reserve	225			225
Cumulative effects of changes in accounting principles	<u>877,463</u>			<u>877,463</u>
Net change in capital and surplus for the year	<u>565,211</u>	A1 to A2	<u>(464,137)</u>	<u>101,074</u>
Capital and surplus, December 31, 2001	<u>\$ 3,556,703</u>	A1 to A2	<u>\$ (464,137)</u>	<u>\$ 3,092,566</u>

GREAT REPUBLIC LIFE INSURANCE COMPANY
***RECONCILIATION OF SURPLUS**
FOR THE PERIOD SINCE THE LAST EXAMINATION

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Capital and Surplus, December 31, Previous Year	\$2,991,492	\$2,498,663	\$2,141,791	\$2,215,552	\$1,729,330
Net income	520,139	527,120	357,286	(53,260)	433,796
Change in net unrealized capital gains (losses)	0	(74,738)	0	0	0
Change in net deferred income tax	(315,146)	0	0	0	0
Change in non-admitted assets and related item	(517,470)	612	19,427	(14,978)	30,712
Change in asset valuation reserve	225	39,835	(19,841)	(5,523)	21,717
Cumulative effect of changes in accounting principles	877,463	0	0	0	0
Aggregate write-ins for gains and losses in surplus	0	0	0	0	(3)
Net change in capital and surplus for the year	565,211	492,829	356,872	(73,761)	486,222
Capital and surplus on December 31, 2001	<u>\$3,556,703</u>	<u>\$2,991,492</u>	<u>\$2,498,663</u>	<u>\$2,141,791</u>	<u>\$2,215,552</u>

* = Compiled from Company filed Annual Statements

GREAT REPUBLIC LIFE INSURANCE COMPANY
Analysis of Changes in Financial Statements Resulting from the Examination
As of December 31, 2001

	<u>PER COMPANY</u>	<u>PER EXAMINATION</u>	<u>EXAMINATION ADJUSTMENT REFERENCE</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>	<u>TOTALS</u>
Capital and Surplus, December 31, 2001 – Per Annual Statement					\$ 3,556,703
<u>ASSETS</u>					
Amounts recoverable from reinsurers	98,814	106,677	A1	7,863	
<u>LIABILITIES</u>					
Aggregate reserve for A&H policies	\$ 12,155,727	\$ 12,627,727	A2	(\$ 472,000)	
Change in surplus					<u>(464,137)</u>
Capital and Surplus, December 31, 2001 - Per Examination					<u>\$ 3,092,566</u>

Great Republic Life Insurance Company
Examination Adjustments
December 31, 2001

(Annual Statement reference)		<u>Debit</u>	<u>Credit</u>
A1	Amounts Recoverable from Reinsurers (Pg 2, Col 1, Ln 12.1)	\$ 7,863	
	Disability Benefits and Benefits under A&H (Pg 4, Col 1, Ln 13)		\$ 7,863
See Instruction No. 5			
A2	Disability benefits and benefits under A&H (Pg 4, Col 1, Ln 13)	\$ 472,000	
	Aggregate reserve for accident and health policies (Pg 3, Col 1, Ln 2)		\$ 472,000

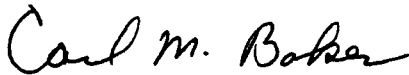
See Instruction No. 7

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the Administrator and employees of the Company during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John R. Jacobson, AFE; and Jeanette Liao, all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Carl M. Baker". The signature is written in black ink and is positioned above a horizontal line.

Carl M. Baker, CPA, CFE, CISA
Examiner in Charge
State of Washington

STATE OF WASHINGTON)
) ss
COUNTY OF KING)

He attests that the examination of Great Republic Life Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Subscribed and sworn to before me this 14th day of February, 2005.

A circular notary seal for Colleen Jansen, a Notary Public in the State of Washington. The seal features a rope-like border. Inside the border, the text "COLLEEN JANSEN" is at the top, "COMMISSION EXPIRES" is on the right, "NOTARY PUBLIC" is in the center with a double-headed arrow, and "STATE OF WASHINGTON" is at the bottom. The date "5-17-08" is at the bottom center.